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ABSTRACT

Formula funding in Illinois reflects decisions on value choices which can be grouped in the categories of enrollment linkage, mission and diversity recognition, equity and fair share, and quality and program improvement. The enrollment linkage of the Illinois formula ties credit hour grants and categorical programs directly to full-time equivalent (FTE) enrollment, though it is "buffered" by a 2-year lag. On the local level, however, severe fluctuation patterns in enrollment have had substantial impact. The Illinois approach to the area of mission recognition and diversity has been the use of a system of seven different rates for funding categories and through supplemental, reinforcing, categorical programs. Illinois has addressed fair share and equity by establishing the "residual principle" in which the fair share of state funding is defined as 100% of the difference in cost between the statewide average cost and a standard local contribution from both tuition and local taxes. Illinois uses both categories and the credit hour grants to address program improvement and quality. Recommendations for changes in the current formula might include the following: (1) determine an average for enrollment and unit costs over a floating 3-year period to add stability in funding to individual institutions; (2) retain the system of multiple funding rates; (3) in the area of fair share, retain the residual concept but move gradually to a system that reflects local institutions' differing responsibilities and types of programs; and (4) provide for quality improvement through existing categorical grants. (LAL)

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FORMULA FUNDING IN ILLINOIS

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Presented at a Meeting of the

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Formula Funding in Illinois

Illinois Association of Community College Business Administrators

November 7, 1985

by Richard Fonte
Vice President
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I would first like to thank you for extending the invitation to me to address your group. As individuals who must deal with the impact of the state funding formula on your own institutions on a daily basis, I know that I am addressing individuals who are more knowledgeable about the formula than virtually anyone else in the state. As such, my intention is not to explain the formula, but to suggest a way of looking at the formula to identify areas where value choices have been made and will continue to be made in the future.

Formula Funding is not unique in Illinois, 1/2 of all states fund four-year institutions through formulas, and 37 states fund community colleges through formulas. Our particular formula does, however, reflect our own decisions on choices which can be grouped into four broad categories:

- 1) ~~Enrollment Linkage~~—What should be the nature of the link to enrollment.
- 2) ~~Mission and diversity recognition~~—What will be the method chosen to assure that there is adequate recognition of the differing missions selected by individual institutions.

1.

- 3) **Equity and "fair share"**—How will equity and "fair share" concerns be addressed including a) equitable funding among institutions, b) between the student and the state, and c) between the state and a locally funded community college.
- 4) **Quality and Program Improvement**—How should quality and program improvement concerns be handled.

The individual decisions made by states are based on a variety of factors (Exhibit 1) including broad environmental influences such as demography, state occupational trends, the economic condition of the state and the local political situation of the state. These broad environmental influences get played out within the particular state's political and organizational structure which in Illinois includes the IOCB, IBHE, the BOB, the legislature, etc. With all the possible combinations considered, it is no wonder that different states make different formula decisions in each of these four areas based on their own situation.

2.

With 74% of all community college systems based upon formula, at the very least, we must admit that formulas have broad appeal. Some of this appeal has to do with belief or feeling that formulas are "objective" mathematical equations. For example, one definition of a formula is that they are a "set of objective procedures that utilize pre-determined ratios and/or cost parameters to estimate financial requirements of an institution." But formulas are not value-free, they are, in fact, policy judgements in quantifiable terms. As one author notes, "the mathematical relationships central to the formula process are arrived at, not by analysis of objective data or technical judgments alone, but by analysis that is leavened by considerable amounts of negotiation and political agreement."

ENROLLMENT LINKAGE

O.K., so let us look at the Illinois situation for each of the four areas. First let us look at enrollment linkage.

The Illinois Formula, particularly, the credit hour grants, but also the categorical programs are linked to FTE, but FTE that is "buffered" by a two-year lag. Thus, while local tuition is directly and immediately linked to enrollment, state funding received by a college is somewhat desensitized to current year enrollment fluctuations.

3.

While this is true on a statewide overall basis, there are still considerable severe fluctuation patterns occurring locally that have in recent years had substantial impact. Looking at the 83-85 period we see that colleges that have a higher than average dependence on state aid as a portion of their total budet were particularly affected. (Exhibit 2) For example Illinois Eastern, funded 60% by the state, experienced an 8.3% shift in its total percent of budget funded by the state in a single year, with swings of \$256,000 up, preceded by a year of a \$190,000 drop in state funding. Chicago saw swings of millions, Rend Lake saw a 19% drop followed by 10% increase.

Another significant fluctuation that the current formula does not address is enrollment fluctuations that exist between categories. These fluctuations can be most significant when the largest school in the system, Chicago City College system, experiences major increases or decreases in any category. There are three categories out of the seven, in particular, in which the Chicago credit hour concentration is exceptionally high:

4.

Remedial -43% of all credits, ABE/ASE -77% of all credits and General Studies -71%. Major shifts in enrollment in any single year in these categories, leads to fluctuation in the statewide "average" and leads to major shifts in the credit hour rate for these categories. (Exhibit 3) This situation occurred in FY 1985 when a Chicago decline of 9.9% in ABE/ASE in its base year, led to a credit hour rate increase of 52%, while another drop of 26% in its base year lead to a 108% rate increase in FY '86.

In one key area in recent years,, the link to enrollment has been weakened with the recognition of fixed costs for small schools. The principle operating here is that the state has a basic responsibility to maintain its investment at some threshold beyond immediate consideration of annual enrollment. The state has chosen to maintain this as a practical matter only in the case of schools that are also equalization schools, presumably those who can least afford using their own tax resources to support fixed costs.

MISSION RECOGNITION AND DIVERSITY

Turning to the second area of Mission Recognition and Diversity, we find that the Illinois approach to address this category of issues has been the use of a system of seven different rates for funding categories, and also, through supplemental, reinforcing, categorical programs. Prior to FY 1977 there was basically a flat rate with one minor supplement.

5.

The "Blue Ribbon" committee originally proposed seven categories, but five were initially used until 1981, when the original concept of seven was restored. The area of change was the definition of general studies. The five category approach had combined remedial, adult basic and vocational. The ICCB report in FY 1981 stated that the five category system had an undesirable impact on the community college mission of many colleges. That is, pulled down by the low unit cost of the Chicago system in remedial and developmental ICCB concluded--"as a result many colleges were forced to limit the number of remedial and vocational skill courses that they could offer at their college."

The current seven categories system addressed this mission problem, but still has some problems. ABE/ASE is still overly influenced by the cost of a single school and the unit cost is not typical of the majority of schools. Secondly, the General Studies category, once shed of ABE, Remedial and Vocational skills, has deteriorated to the point where, if a "pure" residual formula principle was applied, the category would not, generally, be eligible for any state funding. Moreover, the remaining programs funded in this category now approach what can best be described as community education.

The Illinois Formula has also attempted to reinforce certain missions by the use of categories. Economic Development and Advanced Tech and Disadvantaged Student grants, are all attempts to reinforce state priorities. Equalization attempts to preserve state access for certain districts with low tax-revenue per FTE.

6.

FAIR SHARE AND EQUITY - a third area of value choices

The Blue ribbon committee established the "residual principle" in which the fair share of state funding is defined as 100% of the difference in cost between the state-wide average cost (i.e. unit cost)/and a standard local contribution from both tuition and local taxes. Exceptions were General Studies which was to be funded only at 50% of the difference, and Community Education which was to receive no state funding. The value choice implicit in the residual principle assumes that local cost for any program category should remain the same, with the state picking up differences to avoid any disincentive for a college to offer a high cost program.

Alternative value choices are, of course, possible to make. For example, the ICCB advanced in the FY 1986 issue paper the concept that, ideally, the state should fund 1/3 of any program cost, with the local contribution varying, rather than being fixed. The value implicit here, is that the local district should never pay more than some set percent of a program. (Exhibit 4)

A third alternative has been advanced nationally by David Breneman. He suggested that the state should fund different percents, for different categories based upon some set of priorities. The principle here is that the state versus local share should vary based upon some concept of local versus state benefit.

A recent survey of Presidents and Business managers found the last concept, by David Breneman, receiving the highest support with the current practice receiving the least support.

ICCB acknowledged in the FY 1986 issue paper that the immediate implementation of the 1/3 concept would lead to major re-allocation among categories, as weould, I might add, the Breneman concept depending on what you set as higher priorities.

Equalization in another issue of "fair share". The survey showed support for the concept with 80% favoring methods to reduce disparity of taxing power between districts. yet clearly, this category is the most controversial categorical program, with 38% of the respondents seeking to reduce the emphasis on funding for this category. The Illinois approach is based upon an EAV/FTE basis with that underlying value that all FTE's are equal. In reality, it can be demonstrated that, at least, on the basis of unit cost, there are significant differences in providing programs to certain FTE.

Partial acknowledgement of this cost difference can be seen in the "program mix" adjustment in the formula for General Studies. In terms of real program unit cost there are disparities that exist between FTE costs for all categories, which are not recognized in the calculation of equalization. The use of an equal, standardized EAV/FTE concept is derived from the application of equalization principles of the elementary and secondary school level--where curriculums are standardized across the state. Of course, for community colleges with differing missions, there is not standardized curriculum.

PROGRAM IMPROVEMENT AND QUALITY

Illinois uses both categories and the credit hour grants to address program improvement and quality. A review of past budget documents of the ICCB reveals that Economic Development, Advanced Tech and Disadvantaged Student grants have program improvement as an underlying principle. In fact most national writers on formulas state that categorical grants are particularly suited for meeting program improvement objectives.

On the other hand Illinois in recent years has also attempted to realized program improvement objectives through the credit hour funding, by adding, for example, 10 cents per credit hour. I wonder, when the check arrived at your institutions, how many of you might have recalled this objective, and what you did with that extra 10 cents.

9.

The inclusion of "quality improvement factors in the credit hour grant, is in my opinion, a good illustration of the differences between use of the formula for justifying budget requests in front of the legislature, and having any expectation as to use.

RECOMMENDATIONS

Where do we go from here?

My recommendations for changes in the current formula address each of the four areas outlined in this presentation.

With regard to the area of Enrollment Linkage, I have one major recommendation--that is, that we average enrollment and unit costs over a floating three-year period. This should add stability in funding to individual institutions and will also address the fluctuation problem that occurs within categories.

With regard to Fixed Costs I believe there are two possible approaches. We can retain the fixed cost equalization concept since other approaches have been rejected by the BHE (some of which might actually be more desirable), but perhaps expand the concept to cover 2/3 of fixed cost. This approach should only be followed, however, if equalization is adequately funded and does not, as happened in the first draft of the first year, lead to reallocation of dollars from other equalization schools.

10.

A second approach might be to consider funding the operations and maintenance element of unit cost on a non-enrollment basis. Writers call this concept "decoupling" and the ICCB FY 1981 report suggested this idea as a possible approach. I believe we should at least study the approach as an alternative fixed cost approach.

In the second area of Mission Recognition we should retain our system of multiple funding rates. General Studies, however, should not receive special treatment, if it cannot meet the residual standards. The state should consider a means to recognize the local funding effort in General Studies and community education along the lines that fixed cost is acknowledged. Moreover, General Studies should be retained as a factor in calculation of equalization.

In the third area of Fair Share, there are two recommendations. We should retain the residual concept, but move gradually to a system that reflects a philosophy that local institutions and the state have differing responsibilities toward different types of programs. I would welcome a system-wide debate to make our priorities explicit rather than implicit as they are now.

11.

With regard to Equalization, we should retain the concept, but consider further means to make the concept cost based. We should consider the concept of a weighted FTE, weighted on the basis of program costs.

Finally, in the area of Program Improvement, we should not in the future, add a quality improvement factor to the credit hour grants, since they are ineffective, but rather provide for quality improvement through the existing categorical grants (don't add new ones). With that thought in mind the advanced technology program should be converted from a program limited to equipment to a program that allows for program improvement or a recognition that there is more to advanced technology adjustment than equipment purchases.

In conclusion I think we can recognize that the decision rules affecting each of the four areas outlined in this presentation will affect each institution differently. As Business managers I urge you to be sensitive to these value choices and participate in the process.

I recognize that the recommendations I have just made reflect choices on which there can be a wide difference of opinion. They reflect, I might add, my own value choices and not even those of the institution at which I work. I am, at least, hopeful that my analysis will stir debate. That is my main purpose. Thank you.

Framework to Analyze Funding Plans

Exhibit I

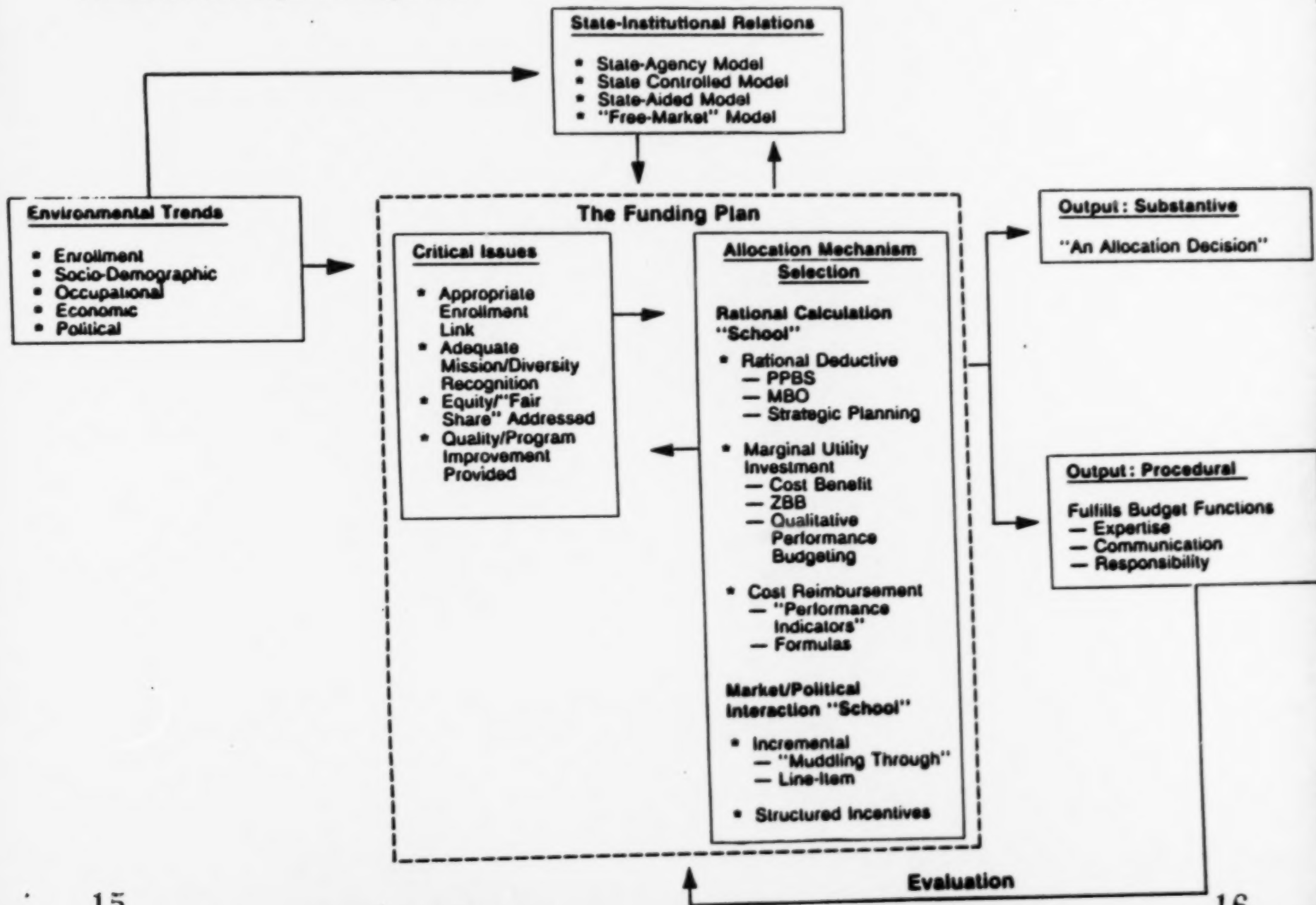


Exhibit II

College 82-83 District	State 1985 %Bud	St.Bud Fluct 84-85	84-85 St. % change	84-85 St. \$ change	83-84 St. % change	83-84 St. \$ change	82-83 St. % change	82-83 St. \$ change
Ill. Eastern	60%	8.3%	4.9%	256416	-3.5%	-190364	-3.7%	-208153
Southeastern	53%	3.0%	16.2%	234274	-5.1%	-77162	-11.9%	-206287
Chicago	41%	-5.5%	4.6%	2356397	9.7%	4491216	-1.3%	-617603
Shawnee	40%	8.9%	8.9%	283740	-3.6%	-34254	0.5%	-4579
Rend Lake	37%	0.6%	0.6%	-41312	10.8%	154778	-19.0%	-337397
Thornton	36%	6.3%	6.3%	878064	2.0%	67393	-8.5%	-316596

Exhibit II

	State 1985 %Bud	St.Bud fluct 84-85	84-85 St. % change	84-85 St. \$ change	83-84 St. % change	83-84 St. \$ change	82-83 St. % change	82-83 St. \$ Change
Kaskaskia	35.8%	2.1%	10.4%	147843	15.0%	186712	6.7%	78202
Dupage	21.5%	0.0%	3.1%	218682	7.9%	520291	1.2%	74644
Black Hawk	27.8%	3.0%	16.8%	530295	-17.2%	-658119	0.4%	15866
Triton	26.5%	-0.3%	3.3%	262197	9.6%	691297	-7.6%	-592520
Parkland	18.4%	-3.5%	-4.2%	-134298	6.1%	186325	-2.9%	-91649
Sauk Valley	29.5%	0.7%	7.3%	99428	-3.3%	-46743	2.3%	32002
Danville	32.7%	2.7%	12.2%	195201	1.7%	26552	-0.1%	-1303
Chicago	40.9%	-5.5%	4.6%	2356397	9.7%	4491216	-1.3%	-617603
Elgin	23.4%	0.4%	4.1%	85539	0.8%	16919	3.5%	70765
Thornton	35.7%	6.3%	25.1%	878064	2.0%	67393	-8.5%	-316596
Rock Valley	25.3%	-1.6%	1.5%	41072	2.3%	60743	-1.3%	-35470
Harper	24.1%	-0.4%	5.3%	297413	6.4%	338978	-2.7%	-149136
Ill. Valley	31.3%	1.2%	7.3%	139435	-3.1%	-61690	1.0%	18578
Ill. Central	27.0%	3.8%	5.7%	256277	4.1%	176116	-1.7%	-75530
Prairie St.	24.3%	-3.3%	-2.3%	-54469	2.3%	51743	-13.3%	-351099
Waubensee	26.2%	-1.6%	-1.5%	-29288	12.1%	208619	-0.4%	-7657
Lakeland	28.9%	-1.3%	-0.6%	-11228	-4.1%	-80708	1.3%	25730
Carl Sand	39.4%	11.6%	1.2%	15484	6.3%	75046	5.4%	61526
Highland	35.9%	1.7%	23.3%	293287	-0.5%	-5919	0.7%	8908
Kankakee	34.6%	3.1%	26.3%	394259	8.8%	120727	4.2%	55233
Rend Lake	37.0%	0.6%	-2.6%	-41312	10.8%	154778	-19.0%	-337397
Belleville	33.1%	-3.0%	4.3%	199908	6.0%	264023	-0.6%	-26722
Kishwaukee	36.8%	5.0%	15.7%	229070	3.1%	44590	14.5%	179857
Moraine	23.0%	0.8%	10.8%	440945	6.7%	257021	-5.8%	-234874
Joliet	25.3%	-1.1%	-0.6%	-27082	4.1%	163571	-2.7%	-111626
Lincoln Land	23.0%	-2.5%	-2.4%	-58993	10.6%	236729	-9.0%	-221604
Morton	22.1%	0.9%	7.4%	89485	5.5%	63352	-10.9%	-140139
McHenry	26.0%	-1.2%	1.4%	17044	14.8%	161554	-5.3%	-61396
Ill. Eastern	60.1%	8.3%	4.9%	256416	-3.5%	-190364	-3.7%	-208153
Logan	37.1%	3.1%	17.4%	292325	1.1%	18287	-1.7%	-28191
Shawnee	39.6%	8.9%	30.7%	283740	-3.6%	-34254	-0.5%	-4579
Lake County	22.6%	-1.6%	1.4%	52150	4.1%	144669	-2.5%	-88890
Southeastern	53.0%	3.0%	16.2%	234274	-5.1%	-77162	-11.9%	-206287
Spoon River	25.9%	-0.3%	-4.2%	-41157	12.8%	111404	2.1%	18152
Oakton	19.8%	0.6%	12.2%	414949	18.9%	540206	-6.8%	-209908
Lewis/Clark	25.7%	-3.1%	-3.2%	-63617	6.6%	124790	-2.0%	-38458
Richland	21.0%	-1.3%	-1.1%	-12000	14.5%	141420	16.5%	137920
John Wood	34.0%	4.1%	15.7%	230487	7.2%	98724	14.3%	171153
total	30.7%	-0.6%	5.7%	8478222	6.1%	8588836	-2.2%	-3208251

1986
FINAL IBHE FUNDING RATES FOR CREDIT HOUR GRANTS

Exhibit III
03/04/86 GOVERNOR'S FINAL

State	Credit Hours			Funding Rates			Credit Hour Grants			Dollar Change
	FY 1983	FY 1984	% Change	FY 1985	FY 1986	% Change	FY 1985	FY 1986	% Change	
Baccalaureate	2684849	2822026	5.11%	21.67	24.97	15.23%	58180678	70466039	21.12%	12285361
Business	768218	554064	-27.88%	11.80	16.21	37.37%	9064972	8981377	-0.92%	-83595
Technical	968296	850594	-12.16%	24.92	27.86	11.80%	24129936	23697549	-1.79%	-432387
Health	352606	286351	-18.79%	50.75	58.48	15.23%	17894755	16745806	-6.42%	-1148948
Remedial/Develop	161577	221064	36.82%	15.63	23.83	52.46%	2525449	3267955	29.31%	742507
ABE/ASE	1186629	923191	-22.20%	6.08	12.66	108.22%	7214704	11687598	62.00%	4472894
General Studies	395049	307391	-22.19%	1.00	1.00	0.00%	395049	307391	-22.19%	-87658
Total	6517224	5964683	-8.48%	18.32	22.99	25.50%	119405543	137153716	14.86%	17748173
Chicago										
Baccalaureate	451240	486451	7.80%	21.67	24.97	15.23%	9778371	12146681	24.22%	2368311
Business	214216	102590	-52.11%	11.80	16.21	37.37%	2527749	1662984	-34.21%	-864765
Technical	159018	133500	-16.05%	24.92	27.86	11.80%	3962729	3719310	-6.14%	-243419
Health	76125	50070	-34.23%	50.75	58.48	15.23%	3863344	2928094	-24.21%	-935250
Remedial/Develop	40968	95185	132.34%	15.63	23.83	52.46%	640330	2268259	254.23%	1627929
ABE/ASE	952198	712569	-25.36%	6.08	12.66	108.22%	5819764	9021124	55.01%	3201360
General Studies	297087	219370	-26.16%	1.00	1.00	0.00%	297087	219370	-26.16%	-77717
Total	2195852	1799735	-18.04%	12.25	17.76	45.04%	26889373	31965821	18.98%	5076448

